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I would first like to commend Mike Hall and the Great Plains Wheat Board of Directors for their work as a cooperator in developing markets for U.S. production.

Through organizations like Great Plains Wheat, the message that the United States is a dependable supplier of quality wheat is carried throughout the world. As we look to the months and years ahead, our work with cooperators takes on renewed importance as we strive to open new markets for American wheat.

I'm here today principally to review the world wheat situation and the United States' trade policies for this commodity. I would like to qualify that statement to the extent that major segments of our international trade policies are linked directly to basic food and agriculture legislation that hasn't received final approval of the Congress or been signed into law by the President. For that reason our policies and programs in the international arena must remain somewhat flexible.

World Wheat Situation

We are now projecting that the 1977 level of world wheat production will approach 400 million metric tons. The current world crop is not expected to equal last year's record production of nearly 413 million tons for two basic reasons. First, planted acreage was reduced in several major producing countries, particularly Canada, Argentina and the United States. Second, even though weather has been basically favorable to wheat production, it won't duplicate the very favorable production weather of 1976.

Remarks by Assistant Secretary for International Affairs and Commodity Programs Dale E. Hathaway, at the Annual Summer Meeting of Great Plains Wheat, in Wichita, Kansas, August 15, 1977.

In addition to record wheat production last year, world wheat stocks rose by about 36 million tons -- the largest single-year increase on record. This yielded a global carryin stock level of slightly below 100 million tons for the current 1977/78 season. Wheat stocks during the current season are expected to remain near present levels. However, if aggregate weather conditions for wheat are moderately unfavorable in the next few months, or if consumption is in fact higher than estimated, world wheat stocks at the end of 1977/78 could be somewhat less than that of the current year.

This outlook for world wheat stocks in 1977 occurs at the same time that the U.S. confronts a record wheat supply. With a near record harvest and an excessively large level of carryin stocks, the U.S. wheat supply is expected to approach 3.2 billion bushels.

On the demand side of the equation, global wheat consumption is now expected to show another sizable increase in the current year, partly because of an anticipated increase in feed use of wheat in the Soviet Union and Western Europe and the U.S. The other principal factor is that wheat is now more competitive with feed grains.

Total wheat consumption in the U.S. this year is expected to reach almost 24 million tons, up nearly 3.5 million tons from last year. We have already begun to see a significant increase in the amount of wheat being utilized for feed consumption in the U.S. Almost 400,000 tons were fed during the April-May period, compared to almost nothing for the corresponding period a year ago. This trend is expected to continue, with the heaviest feeding of wheat taking place through September, just prior to the corn and sorghum harvests. Estimates are that nearly 6.4 million tons of wheat will be fed this season, compared to less than half of that amount for the preceding year.

In spite of the estimated increase in global wheat stocks, a substantial recovery in the volume of world wheat trade during the current 1977/78 year is anticipated. World wheat trade during the current year is estimated at about 68 million tons, almost 7 million tons above the depressed level of last year.

Increased imports are expected from the People's Republic of China, Mexico, and North Africa, where droughts have hindered crop development. More imports are also likely for Western Europe for "blending up" the domestic crop.

One of the major reasons for this expected recovery in world wheat trade during the 1977/78 season is the dramatic increase in China's wheat import requirements. In early July the Australian Wheat Board announced a sale to the PRC of 3 million tons for delivery during 1977/78. The PRC purchase represented the largest single sale in the history of the Australian Wheat Board and duplicated the sale made by the Canadian Wheat Board to the PRC in late May.

This past week the Soviet Union purchased a total of 751,600 metric tons of wheat from the United States as the first sales during the second year of the five year agreement. That agreement provides that the Soviet Union will buy a minimum of 6 million tons of wheat and corn each year.

Even though these purchases were expected they do result in a drawdown on U.S. supplies.

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The PRC's wheat imports for the 1977/78 year are now estimated at 9.5 million tons, almost triple the 3.5 million tons of wheat imported during the previous year. China's recent large wheat import purchases are believed to reflect, in part, their concern over low stocks, their prospects for this year's wheat crop, and prospects for the fall coarse grains harvest in North and Northeast China. These two major grain producing regions experienced severe spring droughts this year. The harvesting of wheat in North China has also been hampered by recent severe rain storms. In addition, the outlook for the early rice crop in South China has been dimmed by drought, followed by torrential rains in the province of Kwangtung, the leading producer of early rice.

Even though global wheat stocks are expected to increase this season, U.S. exports of wheat and wheat flour are expected to reach 992 million bushels (almost 27 million tons) in the 1977/78 July-June year. This is 55 million bushels (1.5 million tons) above last year when U.S. wheat exports slumped badly in sympathy with a reduced level of world trade.

Record U.S. stocks have had a major price depressing effect all year, relating directly to a decline in prices to the point that the cash wheat price is generally below the government loan rate of \$2.25 per bushel.

The world price level for wheat has also been under increasing downward pressure from the record world supplies.

Recently, several wheat producing countries have increased their use of export subsidies to reduce domestic stocks. For example, Turkey recently sold more than 1 million tons of wheat for export with subsidies that are apparently equivalent to more than one-half the current world price. The EC export restitution has also been sharply increased for certain destinations in recent weeks, also to levels well in excess of one-half the current world price.

Another technique that has similar price-depressing effects on world wheat prices has been countries increasing levels of border protection. The EC wheat levy for August delivery is currently set at \$3.54 per bushel or \$130 per metric ton. Similarly, Japan's domestic resale price for imported wheat is now approximately \$6.53 per bushel or \$240 per ton, and Japan has another increase under consideration.

U. S. Domestic Policy

Admittedly, the reality of the world situation can be looked upon as discouraging. But, I prefer to consider it as a challenge -- a challenge that this Administration is dealing with directly.

The wheat programs that we are working on, consisting of domestic price and income support mechanisms, have two basic goals: first, that the price support loan should enable U.S. production to be competitive in world markets; second, that the target price mechanism should cover out-of-pocket production costs.

It is quite apparent today that even for the most efficient producers, current wheat prices are well below the cost of production.

It is vital, therefore, that our domestic price and income support programs be oriented toward international markets, and even more importantly, toward efforts to obtain a greater degree of price stability in those markets. The boom and bust cycle in farmers' incomes, brought about by widely fluctuating market prices, isn't acceptable to this Administration.

For a free market to function, we believe there must be a relationship between supply and demand. It is obvious to us that such a relationship doesn't exist today. Should legislation under consideration become law, the Secretary of Agriculture will have authority to announce a set-aside to bring domestic production more in relation to the potential demand for that production.

International Objectives

On the international scene, we have adopted four basic objectives. One is to aggressively develop new export markets for U.S. production. As part of this objective, we will be seeking increased input from cooperators to develop new programs.

Another objective is to minimize barriers that arbitrarily inhibit trade. In my review of the wheat situation, I spoke of efforts by several countries to restrict trade in view of their own production situation.

A third objective is to provide effective food aid to overcome hunger, poverty, and unemployment in developing countries.

A fourth objective is to achieve meaningful international agreements.

International Initiatives

The ability of United States' farmers to produce quality food and fiber efficiently gives the U.S. major inherent advantages over our competitors. The issue that we are now facing is the development of an export strategy to maintain present markets and expand into new ones. We don't believe that Government can react in an ad hoc manner to major changes in international supply and demand.

Secretary Bergland's meetings with the agricultural ministers of the EC and Canada, his 21-day Far East tour, and the United States position at the International Wheat Council meeting in June are first steps in developing new trade opportunities and a coordinated system for dealing with changes in world supply/demand.

In addition to these external efforts, we are also reviewing all of the market development tools available to expand United States exports.

We are taking a hard look at integrated export market planning. This analysis will categorize export marketing activities into individual markets, giving us the opportunity to establish priorities for countries and commodities. Once this is accomplished, we will be working with all cooperators including Great Plains Wheat to develop three to five-year plans for commercial export expansion. These plans will include market development activities by cooperators, and appropriate credit arrangements.

We are in the midst of a total re-examination of existing CCC credit programs to determine if they enable us to be competitive with other world suppliers. We want to find out if present arrangements maximize or hinder our exports.

International Negotiations

The other primary initiatives to expand trade and reduce barriers to trade are taking place in international negotiating forums.

The Multilateral Trade Negotiations in Geneva appear to be back on track following several meetings between the United States and the EC. A series of deadlines have been set that will result in completion of negotiations prior to next June. We are optimistic about this timetable and the outcome of negotiations.

The other principal forum is the International Wheat Council. We have stressed in every meeting with foreign leaders our willingness to participate in an effective international agreement on wheat.

We outlined major objectives in this regard to the International Wheat Council meeting in London at the end of June.

At those meetings we discussed three basic objectives to expand trade. We support mechanisms to moderate price swings, to reduce trade barriers, and to enhance food security, particularly for poor nations.

We have stated our commitment to put in place an agreement that will reduce the extreme fluctuations around the long-term world equilibrium price through an international system of nationally-held reserve stocks. We have proposed that all major grain trading nations -- exporters and importers alike -- should accept meaningful obligations for reserve stocks with common guidelines for acquisition and release.

We are basically encouraged on the general question of a coordinated reserve based on price indicators, but we have not as yet determined whether a practical and equitable system can be developed, given the differences in the political and economic systems of the countries that would participate.

We have demonstrated our commitment to such an international reserve system through the domestic farmer-held reserve that Secretary Bergland announced in April.

In a relatively brief period of time I have outlined the framework that we will be operating within in the coming months.

Achieving the goals that I have discussed won't happen overnight. They will take time for development. But I can assure you of our commitment to America's farmers to expand export opportunities, so that wheat producers can obtain a better income. I can also assure you that Great Plains Wheat will be a partner in our efforts to open new markets for U.S. wheat.

Thank you.

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